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SUBJECT: BUDGET LOSSES RESULT IN PERSONAL PROFITS

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11. (SBU) Summary: One of the issues that will be on the agenda in any comprehensive Transnistrian (TN) peace settlement will be the resumption of railway traffic. TN authorities recently presented a railroad initiative, which appears to be a response to President Voronin's October 2007 proposal that Moldovan and Transnistrian experts work together to re-establish full operation of the railways. The TN initiative offers resumption of travel, while seeking recognition for TN property rights over the left-bank assets of Moldova Railways. Chisinau is willing to grant left-bank profits to Tiraspol, but insists it will not concede ownership. Though both sides are losing money from the current freeze in railroad traffic, the status quo appears to generate lucrative illicit private profits for some members of Transnistria's inner circle. End Summary.

Losses for Both Sides...

12. (SBU) Local newspapers reported that TN Supreme Soviet (Parliament) Speaker Shevchuk presented a railway initiative to EU Special Representative Kalman Miszei during their January 21 meeting. The railway documents were also passed to Minister for Reintegration Vasile Sova. This initiative appears to be the TN response to President Voronin's October 2007 confidence-building proposal that Moldovan and Transnistrian experts work together to re-establish full operation of the railways. Tiraspol proposed resuming cargo transportation on the Causeni-Bendery-Cuciurgan rail line, which would allow passage of Moldovan goods to Ukraine through Transnistria. Tiraspol also suggested opening the Bendery and Tiraspol railroad terminals for freight handling, allowing freight movement under a free-of-charge regime. However, this TN proposal calls for establishing economic relations between two distinct economic and legal entities, thus implying recognition of divided railway assets.

13. (U) In a long interview published on January 29 in "Nezavisimaya Moldova (Independent Moldova)," the Director General of Moldova Railways, Miron Gagauz, categorically rejected the TN initiatives, labeling them as a "provocation" designed to appeal to the uninformed. Gagauz said that he was ready to negotiate joint management by Chisinau and Tiraspol of the railways on the both banks, but that the TN proposal to establish economic relations between Moldova Railways and the Transnistrian railroad entity, which had seized Moldovan railway property, was unacceptable.

14. (U) With Transnistria's 2004 seizure of railroad locomotives, cars and administrative facilities in the left bank, Chisinau lost effective control over Moldovan national railway assets in TN. Transnistrian authorities then suspended all railway transportation in 2006, in reaction to the enforcement of a new customs regime, while claiming it was Chisinau's fault. The suspension of railway traffic lasted for six months until the fall 2006 signing of

temporary agreements between Moldovan, Ukrainian and Russian railway operators. The agreements allowed partial resumption of transit cargo and passenger trains.

15. (SBU) Under the current rail transportation regime, shipment of cargo from Transnistria is impossible, and a 100% TN cargo tax makes it impractical for Moldovan economic entities to ship goods across TN by rail. The majority of Moldovan goods bound for Ukraine and points east use the northern railroad line through Ocnita or Otaci and bypass TN and its 100% tax. Transnistrian heavy industries, Ribnitsa Steel Plant and Ribnitsa Cement Plant, have cut their own separate deals with Moldova Railways, and ship their product in privately owned railway cars, but at greatly increased expense. Chisinau has appealed to Tiraspol to negotiate TN's share of railway profits, either on the basis of a 2004 agreement on joint management of Moldova Railways, or by reaching a new agreement. The status quo is clearly damaging the economic interests of both sides, but so far no solution can be found. Chisinau will not accept division of its railway company, and Tiraspol will not give up claim to the property it seized.

...But Personal Gains for the Inner Circle

16. (SBU) Financial interests form the foundation for the railway dispute. Though Transnistrian businesses are suffering from increased transportation costs, the TN administration supports the continued economic division of the railway system because it is in the personal economic interests of certain members of Smirnov's inner circle. Some of our Moldovan contacts have claimed that Smirnov's daughter-in-law, Marina Smirnova, Smirnov's Deputy Alexandr Koroliiov and Security Council Deputy Secretary Yuri Soukhov own Odessa-based intermediary companies that allow them to earn personal profits of some 600,000-800,000 USD monthly, with only minimal payments to the TN budget.

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Comment

17. (SBU) While discussions on the resumption of railway traffic currently seem to be in a deadlock, this issue is one that will need to be solved in the context of 5+2 talks and any comprehensive TN settlement. The current railway transportation regime provides minimal passenger transportation and the transport of cargo is effectively blocked, causing significant financial losses for both left- and right-bank businesses. This is not the first time that Smirnov's inner circle sacrifices the good of the people in Transnistria for its own personal gain.

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